

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: 2002-2003 Investment Branch Objectives/
Committee Work Plan

ITEM NUMBER: 10

ATTACHMENT(S): 2

ACTION: X

DATE OF MEETING: July 10, 2002

INFORMATION: _____

PRESENTER: Christopher Ailman

Executive Summary:

Staff recommends the Committee approve the attached list of objectives and Investment Committee work-plan for the 2002-2003 fiscal year.

Background:

CalSTRS has developed a very effective management tool for coordinating the workload between the Investment Branch and the Investment Committee. The investment branch objectives allow the Committee the opportunity to prioritize the investment branch's work plan and then measure the successful completion of these tasks. The investment staff's workload has two components, first the daily management of the investment portfolio and staff, and second, special project as they arise. Since special projects are in addition to the regular work plan of the investment branch coordination of the schedule is critical. Once the Committee adopts the objectives, the committee's policies require that any additions or deletions come back through the Committee for ratification.

Detailed staff level goals for next year still exist, in fact the CIO requires each Director to submit detailed goals for continuous improvement and these are factored into measuring each units' success for the year. While these goals and projects may never come before the Committee for action, they are very important, and may result in significant improvements in efficiency and investment returns. Chief among these are; electronic trade tickets, automation of the home loan applications, and program enhancements in the real estate cash management process.

Discussion:

The CalSTRS Investment Committee has evolved to a natural meeting flow that includes canceling a couple of meetings per year to accommodate vacations and holidays. In addition, the tentative schedule includes a long list of monthly, semi-annual and annual reports that tend to consume large portions of the meetings, such as, the July meeting which is consumed by the annual business plan and policy presentations. To facilitate better planning of special projects, staff has divided the fiscal year into two semesters, fall and spring. Staff is aware of the general issues that the Committee desires to discuss, as well as the approximate timing for each. The table below details the major studies and timeframe.

Fall Semester - 2002 (October to February)	Stochastic asset liability study Review of emerging markets Responsible contractor policy Currency hedging implementation
Spring Semester - 2003 (March to July)	Board Member orientation Active equity management study Pension governance review Emerging / small investment managers team

To provide a visual picture of the meetings workload, attached is the tentative Committee agenda for the next Fiscal Year (attachment 1). Several of the topics listed above will blend over several meetings; the large boxes represent these. Please keep in mind that the agendas will also fill up with potential real estate and private equity investment recommendations that exceed the level of staff delegation.

Several of the fall projects have been discussed at prior meetings. The stockstic asset liability study, the responsible contractor, and hedging projects are continuations from the prior year. The review of the emerging markets is also a continuation of a prior year request from the Committee. The intent of this study is to review the CalPERS activity in establishing country screens and developing a restricted list of approved emerging countries for investment.

In the spring of 2003, there are several projects to consider. First at the start of the year, we anticipate the Committee will have several new Board members. Both an investment and fiduciary orientation will be required. Next, staff suggests the Committee review active vs. passive equity management and the structure of our U.S. and Non-U.S. portfolio. In area of pension governance, the current system of policies and delegation to staff was created with the help of Cortex in 1997. Two years ago the Committee suggested bringing Cortex back for a review and update to the structure. The last issue is a suggestion by staff to study the potential of creating an emerging or small investment manager pool. There are many new and diverse active equity managers that are too small for the traditional CalSTRS allocation. To help find and big investment manager for the 21st century, staff is recommending a study of how to create a cost efficient team of small emerging U.S. equity managers.

Lastly, staff will continue to coordinate tri-annual educational investment insight presentations. As the third largest fund in the U.S.A., we will be able to draw on some of the leading minds in investment and economic theory. Potential topics for this year include hedge funds, global politics, commodities, and current academic investment research.

Prepared & Recommend by

Christopher J. Ailman

Chief Investment Officer

CalSTRS Investment Committee 2002- 2003 Meeting Work Plan

FALL SEMESTER				
September	October	November	December	February
Board retreat and workshop	Stochastic Asset / Liability Study			Investment Portfolio – overview / New board member orientation
	Review of emerging markets			
	Implementation of urban & rural private equity and real estate			
	Annual review of the Benchmark Modification Policy	Responsible Contractor Policy	Investment Insights panel – Hedge Funds	Investment insights panel – Topic TBD
	June 30 Reports: California Inv. Policy Semi-Annual Equity manager report	Cortex – Investment philosophy & beliefs		
	Semi-Annual Investment Performance Reports Total Fund Real Estate Private Equity			Semi-Annual Report on California Investments
	Activity Status Reports	Activity Status Reports	Activity Status Reports	Activity Status Reports

CalSTRS Investment Committee 2002- 2003 Meeting Work Plan – page 2

SPRING SEMESTER				
March	April	May	June	July
	Active Equity management study			<div>ANNUAL BUSINESS PLANS & Investment Policy & Work-plan for 2003-2004</div>
<div>Annual Reports: Home Loan Program Credit Enhancement Program Cash Equitization Program <u>Semi-Annual Reports:</u> Invest. Div. Budget Semi-Annual Equity Manager Report Activity Status Reports</div>	Review of pension governance–Cortex Partners			
	Study small / emerging active equity managers programs.			
	<div>Semi-Annual Investment Performance Reports Total Fund Real Estate Private Equity Present straight through processing readiness Activity Status Reports</div>	<div>Annual Report: Securities Lending Program Activity Status Reports</div>	<div>Investment insights panel – Topic TBD Review of High Yield and changes to the Fixed Income portfolio Activity Status Reports</div>	

**INVESTMENT BRANCH
2002 – 2003 INVESTMENT OBJECTIVES TIMELINE**

DIVISION	DESCRIPTION	SEMESTER	STATUS
ALTERNATIVE INVESTMENTS	Implement Committee plan for private equity investments in under served urban and rural communities.	FALL	
CREDIT ENHANCEMENT	Present a comprehensive Annual Report on the Credit Enhancement Program.	SPRING	
EXTERNAL EQUITY	Present a Semi-annual report rating the investment managers.	FALL & SPRING	
	Explore, evaluate, and present an analysis regarding the selection of emerging market countries for investment.	FALL	
	Evaluate and present an analysis on the active equity allocation to determine the appropriate active/passive split.	SPRING	
	Study and evaluate the creation of small / emerging active equity managers program.	SPRING	
CORPORATE GOVERNANCE	Pursue broad market reforms and work-plan companies	FALL & SPRING	
INTERNAL EQUITY	Present an annual report to the Investment Committee that reviews the status of the Cash Equitization program.	SPRING	
FIXED INCOME LONG TERM	Present status report on High Yield managers and changes to the fixed income portfolio.	SPRING	
HOME LOAN	Present an annual report on the Home Loan Program.	SPRING	

INVESTMENT BRANCH
2002 – 2003 INVESTMENT OBJECTIVES TIMELINE

DIVISION	DESCRIPTION	SEMESTER	STATUS
INVESTMENT OPERATIONS	Present a report on straight through processing readiness	SPRING	
REAL ESTATE	Implement plan for urban real estate and affordable housing investments.	FALL	
SECURITIES LENDING	Present an Annual Report on the program	SPRING	
SOFT DOLLAR	Present a financial statement report to the Investment Committee as part of the Semi-annual Budget report.	SPRING	Continued from '01-'02
GENERAL – (CIO)	Complete a stochastic asset liability study	SPRING	
	Present the semi-annual report as required by the California investment policy.	FALL & SPRING	
	Orient new Board members and assist the Committee with the pension governance review	SPRING	
	Revise the Investment Management Plan to reflect the modifications (if any) in the strategic asset allocation, investment objectives, and investment structure.	SPRING	